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To: Professor Doug Young
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Subject: Explanation of Differences in Property Tax Revenue Between the US Census' and the Department of Revenue's *Biennial Report*

Introduction

The numbers the US Census Bureau (Census) reports as property tax collected in Montana differ from the Department of Revenue's (DOR) numbers on property tax collections found in the *Biennial Report*. This report will examine the differences in property tax collected, explain the causes of the differences, and propose solutions to eliminate the differences.

The first part of this report includes a background section, a section on how the data is collected and a section that provides a glossary of terms used in discussing property tax. The body of the report is organized into sections that correspond to the source data for the differences in reported property tax revenues. These sections are State Government, Schools Community Colleges, Schools K-12, Local Government and Special Districts. The final sections will examine immaterial differences, provide a Summary of Recommendation and discuss potential long-term solutions.

Background

Professor Doug Young, Montana State University, brought to the attention of DOR that property tax revenue reported for fiscal 1997 by the Census differed significantly from the amount of property tax revenue reported in the DOR *Biennial Report* for the same time period. Ryan Jose of the Department of Revenue's Tax Policy and Research initially investigated these differences. He created Table 1 detailing the difference between what DOR and the Census reported as being collected from property tax for

fiscal 1997. DOR reported a total of \$775 million in property tax revenue and the Census reported a total of \$824 million, for a difference of \$49 million dollars.

Table 1 Comparison of Property Tax Reported by DOR and Census Fiscal 1997 (Millions)			
Property Tax Collections	DOR Report	Census Report	Difference
<u>State</u>			
School Equalization	\$178	\$209	\$31
Welfare	7	7	0
Vo-tech	4	0	(4)
Other	11	18	7
Sub-Total	\$200	\$234	\$34
<u>Local Government</u>			
Elem/High School	\$244	\$271	\$27
Countywide Schools	50	0	(50)
County Funds	137	213	76
City/Town/ SID	91	85	(6)
Miscellaneous Dist	53	0	(53)
Special Dist	0	21	21
Sub-Total	\$575	\$590	\$15
Total	\$775	\$824	\$49

How Property Tax Data is Collected

Montana Department of Revenue

The Montana Department of Revenue (DOR) collects property tax data for its *Biennial Report* through the Taxes Levied Report.

The Taxes Levied Report data is compiled in the fall of every year by DOR field staff and summarized by Tax Policy and Research. The Taxes Levied Report collects data on the taxes and fees assessed for each taxing jurisdiction within a county. DOR field staff compiles a report for each county and Tax Policy and Research combines the county reports into a statewide summary.

The Taxes Levied Report (TLR) contains taxable valuation, mill levy data and assessed property tax data for all the taxing jurisdictions that levy mills. An example of this would be a taxing jurisdiction with a taxable value of \$500,000. The taxing jurisdiction levies 10 mills. The property tax revenue for this taxing jurisdiction would be \$5,000 (\$500,000 x 10 mills/1000 = \$5,000). The TLR includes revenue data for fee-based districts; for

example, a rural television district with 500 households. The district collects \$10 per household. The TLR would report the \$5,000 collected in total fees for the district.

Census Bureau

The Census assembles its state and local tax collection data from several sources. These sources are: the Office of Public Instruction (OPI), which provides tax collections and expenditure for K-12 schools; the Montana Department of Revenue (DOR), which provides the Census data on taxes collected by the state, includes property taxes collected for state purposes; the Montana Department of Administration (DOA), which provides the Census data on taxes collected for taxing jurisdictions that are administered by county governments; and data for special districts collected through an annual financial survey.

Glossary of Property Tax Terms

A glossary of terms used by DOR for property tax purposes is included in this report to provide a common point of reference for the reader, state agencies, and the Census when discussing the issues involved in reporting property tax revenue.

Ad Valorem Property Tax – A tax based upon the value of real or personal property, generated by applying a mill levy to the taxable value of real or personal property.

Mill Levy – A tax rate expressed in 1/1000's of a dollar. A mill levy is applied to the taxable value of a property to determine property tax liability.

Non-Levy Revenue – Non-levy revenue is revenue not generated by applying a mill levy, but is distributed to jurisdictions based on the number of mills levied by each taxing jurisdiction in relation to the total number of mills levied by all affected taxing jurisdictions. Examples of non-levy revenue are taxes paid on coal, oil and gas production and federal forest reserve payments. Prior to the passage of HB124 (effective July 1, 2002) non-levy revenue included fees paid by trucks, buses and trailers.

Special Improvement District Fees – Fees assessed by SID's. The fees are not generated by a mill levy nor distributed on the bases of a mill levy. An example of an SID fee would be the \$10 fee collected per household in a rural television district.

Taxing Jurisdiction – A governmental entity (state, county, school district, miscellaneous district) granted specific authority to levy property taxes to support its budget.

Miscellaneous District – A taxing jurisdiction other than a county, city, or school district that taxes property on an *ad valorem* basis. That is, the property tax revenue for the district is generated by application of a mill levy.

Special Improvement District – Entities that use fees or taxes (user fees and taxes not based on ad-valorem) to fund infrastructure. SID's most often are used to provide street lighting, sidewalks, curbs, paved streets, sewer connections, and other site-specific improvements.

State Government

Issue 1: Non-Levy Revenue is Included in the Census Numbers

The Department of Revenue reports property taxes collected for the university system's 6-mill levy, the 95-mill school equalization levies, and the vocational technical 1.5-mill levy to the Census from tax revenue data extracted from State Accounting Budgeting and Human Resource System (SABHRS).

As shown in Table 2, DOR reported \$178 million while the Census reported \$209 million of property tax collected for school equalization in fiscal 1997. This is a difference of \$31 million. Table 2 also shows DOR reported \$22 million for welfare, vo-tech, and other programs while the Census reported \$25 million. The total property tax difference reported for state levies is \$34 million.

Table 2 Comparison of Property Tax Reported in Fiscal Year 1997			
State Property Tax Collections	DOR Report	Census Report	Difference
School Equalization	\$ 178	\$ 209	\$ (31)
Welfare	7	7	-
Vo-tech	4	-	4
Other	11	18	(7)
Total State Collections	<u>\$ 200</u>	<u>\$ 234</u>	<u>\$ (34)</u>

Non-levy revenue is included with ad-valorem property tax revenue in the SABHRS data reported by the DOR to the Census. The inclusion of non-levy revenue in the property tax revenues is a limitation of how SABHRS records property tax revenue. Prior to July 1, 2002, non-levy revenue for the 95 mills, 6 mills and 1.5 mills was combined with the ad-valorem property tax revenue in SABHRS. Since July 1, 2002 SABHRS has separate accounts for non-levy revenue and the ad-valorem portion of 95 mills, 6 mills and 1.5 mills.

Table 3 shows for fiscal 2001 the Census reported \$204.2 million in property tax revenue for state purposes and the Department of Revenue reported \$177.1 for a difference of \$27.2 million. This difference is close to the \$27.9 million of non-levy revenue estimated for fiscal 2001 in DOR's 2003 biennium general fund revenue estimate. The \$729,662 difference is 0.36% of the total revenue.

Table 3 Comparison of DOR Property Tax and Non-Levy Revenue to Census Revenue Collected for State Purposes for Fiscal Year 2001				
	<u>DOR</u>	<u>Census</u>	<u>\$ Difference</u>	<u>% Difference</u>
Ad-valorem Taxes for State	\$177,052,155	\$204,239,000	(\$27,186,845)	-15.36%
*Estimated Non-Levy Revenue	27,916,507	0	27,916,507	100.00%
Total Revenue	<u>\$204,968,662</u>	<u>\$204,239,000</u>	<u>\$729,662</u>	<u>0.36%</u>

*Source General Fund Revenue Estimates for the 2001 Biennium

Recommendation 1: DOR Should Work With The Census To Determine How To Report Non-Levy Revenue

The Department of Revenue worked with the County Treasurers and now has the non-levy revenue reported separately from the ad-valorem property tax. The next step is for DOR to work with the Census to determine how to report the non-levy revenue currently being reported with ad-valorem property tax.

Issue 2: Inclusion of Per Capita Tax Revenue

The Census' "Other" category includes revenue from the university mill levy, the vo-tech mill levy, general other, a deficiency levy, and the livestock per capita tax.

In fiscal 1997, DOR reported a total of \$15 million for the 6-mill university levy, the vocational/technical school levies, and the community college levies. The Census report listed \$18.5 million for these same levies. However, as shown in Table 4, the Census report contains the per capita livestock fees of \$2.9 million. When the per capita livestock fees are taken out of the Census total, the difference between the Census and DOR numbers is \$615,000 or a difference of 4%. Part of this difference is caused by the Census number including non-levy revenue collected on the university and vo-tech mill levies.

Table 4 Comparison of Property Tax Revenue Defined by the Census as Other Property Tax to DOR Categories in Biennial Report FY97			
<u>DOR Categories</u>	<u>Amount Of Tax</u>	<u>Included in Census Other Category</u>	<u>Amount Of Tax</u>
		General Other	\$64,000
		Deficiency Levy	0
		* Livestock Per Capita	2,884,000
University Mills	\$11,000,000	University Mills	14,702,000
Vo-tech Mills	4,000,000	Vo-tech Mills	849,000
Total	<u>\$15,000,000</u>	Total	<u>\$18,499,000</u>
<u>Difference with Per Capita Included</u>		<u>Difference with Per Capita Included</u>	
DOR Total	\$15,000,000	DOR Total	\$15,000,000
Census Total	<u>\$18,499,000</u>	Census Total	<u>\$15,615,000</u>
Difference	<u>(\$3,499,000)</u>	Difference	<u>(\$615,000)</u>
Percent Difference	-18.91%	Percent Difference	-3.94%

Recommendation 2: DOR should work with the Census to have the per capita livestock fees reported in a revenue category other than property tax.

Ideally, the Census should move the per capita livestock tax to the license tax section of the Census report.

Schools: Community Colleges

Issue 3: Reporting of Community College Revenue

Property tax revenue collected for community colleges is not reported directly to the Census by any state agency. When this issue was discussed with the Census, they explained the property tax revenue data used for community colleges came from the federal Department of Education. The Department of Education requires the Montana Commissioner of Higher Education to report annual revenue and expenditure data on Montana's institutions of higher education. This report is used by the Census to obtain data on property tax collected to support community colleges. This indirect data collection prevents verifying what types of revenue were included in the total for community colleges.

Recommendation 3A: Direct Reporting of Community College Revenue

The Census should work with DOA to include the ad-valorem property tax collected from community college mill levies in the local government section of the Census report. Counties use BARS fund number 7815 (community colleges) to report all ad-valorem property tax revenue collected for community colleges. If DOA included financial transactions from these funds in their annual report, the Census would be able to report the property tax collected for community colleges without using a fourth source.

Recommendation 3B: Continue the Current Practice

As no problems were found in the amount of funds reported for community colleges, the current system can be maintained.

Schools K-12

Issue 4: Non-Levy Revenue - Schools K-12

As shown in Table 1, DOR reported \$244 million was collected in property tax for K-12 schools and the Census reported \$271 million. This represents a difference of \$27 million.

The Office of Public Instruction (OPI) supplies financial information on Montana K-12 schools to the Census. OPI maintains an electronic financial reporting system for collecting school budgeting, expenditure, revenue and enrollment information called the Montana Automated Education Finance and Information Reporting System (MAEFAIRS). An annual extract from MAEFAIRS is sent to the Census.

The OPI data must be converted by the Census into a format compatible with their database before importing the data. This conversion is achieved through a computer program matching the MAEFAIRS coding to the Census' accounting structure. The OPI accounting system has several accounts to record property tax, whereas the Census uses just one. The Census converts all the property tax revenue account numbers in the OPI data to the single account number in the Census system.

Comparing OPI and DOR data for fiscal 1997, both included ad-valorem property tax. However, the OPI data for fiscal 1997 also included non-levy revenue related to motor vehicle taxes and fees, coal gross proceeds, and new and interim production of oil and gas. These revenues are not considered ad-valorem property tax by DOR. The Department of Revenue considers these revenues to be non-levy revenue.

Table 5 shows the difference in fiscal 2001 between the property tax revenue sources OPI provided to the Census and the amount DOR reported as ad-valorem property tax collected for elementary and high schools.

After removing the non-levy revenue from the OPI numbers for fiscal 2001, the property tax reported for K-12 schools is \$222,305 (0.09%) lower than the DOR property tax numbers.

Table 5 Comparison of Revenue Defined By Census as Property Tax Collected For K-12 Schools to Ad-Valorem Property Tax Reported by DOR Excluding the Transportation and Retirement Levies		
Revenue Description	OPI Property Tax Revenues FY01	DOR Property Tax Revenues FY01
District Levy	\$185,458,243	244,274,180
District Levy-Real Property	50,100,862	0
District Levy-Personal Property	2,148,690	0
District Levy-Heavy Motor Vehicles	293,411	0
District Levy-Mobile Home/Personal Property	592,089	0
District Levy-Net/Gross Proceeds	628,337	0
District-Protested Tax-Prior Year	3,355,063	0
District-Dept of Rev Tax Audit	91,464	0
District-Tax Title/Property Sale	48,666	0
District-Tax Penalties/Interest	1,335,051	0
Sub-Total Ad-Valorem	\$244,051,875	\$244,274,180
Non Levy Revenue		
*District-Vehicle Taxes and Fees	\$27,578,202	\$0
*District-Coal Gross Proceeds	1,180,685	0
Sub-Total Non-Levy	\$28,758,887	\$0
Total Revenue Reported	\$272,810,763	\$244,274,180
Comparison of OPI and DOR Ad-Valorem Property Tax Revenue for Elementary/High Schools		
	\$ Reported	Property Tax
Department of Revenue	\$244,274,180	\$244,274,180
Office of Public Instruction	272,810,763	244,051,875
Difference	(\$28,536,583)	\$222,305

Recommendation 4: Do not Include Non-Levy Revenue With Ad-Valorem Property Tax.

Table 6 lists OPI revenue accounts that the Census defines as property tax. The Census converts these accounts into a T06 account (property tax) by their programming. The Census computer program should be changed so their T06 property tax category includes only the ad-valorem property tax. This is OPI account numbers 1110 to 1118, 1130, and 1190. The OPI account numbers 1121 and 1123 should be coded to other revenue categories.

Table 6 DOR Classification of OPI Revenue Accounts Census Defines as Property Tax			
Revenue Name	OPI Account #	Ad-Valorem Property Tax	Non-Levy Revenue
District Levy	1110	x	
District Levy-Real Property	1111	x	
District Levy-Personal Property	1112	x	
District Levy-Heavy Mtr Vehicles	1113	x	
District Levy-Mobile Home/Personal Prop	1114	x	
District Levy-Net/Gross Proceeds	1116	x	
District-Protested Tax-Prior Yr	1117	x	
District-Dept of Rev Tax Audit	1118	x	
District-Tax Title/Property Sale	1130	x	
District-Tax Penalties/Interest	1190	x	
District-Vehicle Taxes and Fees	1121		x
District-Coal Gross Proceeds	1123		x

Issue 5: Countywide Retirement and Transportation Levies

In DOR's *Biennial Report* for fiscal 1997, property tax collected from the countywide school transportation and retirement levies is included with property tax for schools. Neither OPI nor DOA report the revenue collected from the countywide retirement and transportation levies as property tax. As a result, the actual revenue collected from these levies is not reported in the Census report as property taxes.

In the data sent by OPI and DOA to the Census, the property tax collected by the countywide transportation and retirement levies could not be isolated. OPI reports the revenue collected on these levies as revenue from county sources and not as ad-valorem property tax. School districts receive the revenue directly from the county's treasurer. The school district classifies the revenues from the retirement and transportation levies as transfers from the county. In the DOA report to the Census, the property tax revenue from the countywide retirement and transportation levies are not included in the data because they are placed in an agency fund. DOA does not report financial activities of agency funds in the annual report to the Census. Agency funds are funds used for special districts not administered by the county government. Examples of these special districts are rural fire, irrigation, and water / sewer districts that are independently administered.

Recommendation 5: Report the Revenue Sources for Countywide School Levies to the Census as ad-valorem property tax.

Solution 5a. Since the retirement and transportation levies are for school programs, OPI could report the property tax collected by these levies. In theory, OPI can do this reporting through MAEFAIRS. There are distinct funds for transportation and retirement in MAEFAIRS. The problem is that the retirement and transportation levies are classified as revenue from county sources, not ad-valorem property tax, by the Census.

If the retirement and transportation levies were classified as revenue from local sources rather than revenue from county sources in the OPI reports, the ad-valorem property tax could be identified.

Solution 5b. The counties collect the countywide levies and report them in BARS fund numbers 7800 – 7849. Since the counties collect the revenue and have a system in place to report the revenue, DOA could report tax collected from the countywide retirement and transportation levies in the annual report DOA sends to the Census.

Either option would allow the Census to account for the ad-valorem property tax revenue generated by the retirement and transportation levies.

City/County

Issue 6: Inclusion of Non Ad-Valorem Property Tax in the Census data

Local governments base their accounting on the Budgetary Accounting and Reporting System (BARS) developed by the Montana Department of Administration (DOA). The Census receives financial data for cities, towns and counties from DOA in the form of a comprehensive annual financial report (CAFR), which is based on the BARS chart of accounts. The Local Government Assistance Unit of DOA collects the annual financial reports of cities, towns and counties and inputs the financial information into an Oracle database. Once all the annual reports are captured in the database, a computer program combines these reports into a consolidated report.

This consolidated report is the Census' data source for local government revenues. Once the Census receives the data from DOA, it uses a computer program to translate the financial information from the BARS format to the format used by the Census. For the state and local government report, the Census takes all the property tax revenue accounts in the BARS system and converts them into the Census' T01 account (property tax revenue).

The Census' programming classifies certain revenue sources as property taxes, which by DOR's definition are not ad-valorem property taxes. In fiscal 2000, this caused a difference of \$39.7 million as shown in Table 7.

TABLE 7
Comparison of Property Taxes From Census and Taxes Levied Report For FY00
With Cities and Counties Combined

From DOR Taxes Levied Report		From DOA Report to Census	
Revenue Sources	Total	Revenue Sources	Total
		Taxes	\$6,286,378
		General Property Taxes	31,087,561
		Real Property Taxes	182,118,557
County	\$151,044,194	Personal Property Taxes	10,342,693
Cities	64,580,025	Mobile Homes	2,262,663
Fire District	12,442,649	Other Personal Property Taxes	777,044
Masc. Dist	10,349,868	Large Motor Vehicles Class 8	6,815,900
SID's	0	Net and Gross Proceeds	901,583
Sub Total	\$238,416,736	Tax Title Property Sales and Penalties and Int	2,526,318
			\$243,118,697
Other Revenues Included as Property Tax			
N/A	\$0	Property Taxes Not Based on Assessed Value	\$444,442
N/A	0	Light Vehicles	14,221,145
N/A	0	Cars and Trucks	1,518,936
N/A	0	Fleet Taxes	2,169
N/A	0	Local Option Tax	12,791,336
N/A	0	Coal Gross Proceeds	2,671,477
N/A	0	Resort Tax	3,369,574
Sub Total	\$0	Sub Total	\$35,019,079
DOR Total	\$238,416,736	Census Total	\$278,137,776
Detailed Comparison of Difference in Property Tax Revenues Between DOR and the Census			
Property Tax Total		Non-Property Tax Total	
DOR	\$238,416,736	DOR	\$0
Census	243,118,697	Census	35,019,079
Difference Property Tax Totals	(\$4,701,961)	Difference Non-Property Tax Totals	(\$35,019,079)
Percent Difference	-1.97%	Percent Difference	-100.00%
Total Difference		(\$39,721,040)	

When excluding non-levy revenue from the property tax total for city/county governments, the difference between the DOR *Biennial Report* and the Census is \$4.7 million, or 1.97%.

This reconciliation was achieved by filtering out the motor vehicle revenues, coal gross proceeds revenue and resort tax revenue that is reported in the Census database as property tax. These non-levy revenues are included in the BARS chart of accounts 310000 series of revenues, and are imported into the Census database as property taxes. (BARS classifies series 310000 as taxes for the support of the governmental units to be distributed to all levied funds.) While fees collected on motor vehicles and other taxes were distributed on the basis of mill levies for fiscal 1997, these are not property taxes. In addition, the law on the allocation of many of these taxes changed July 1, 2001.

Recommendation 6: The Census should classify the non ad-valorem revenue shown in Table 8 as revenue other than property tax.

The Census should change/update its programming so that the property tax revenue category only includes ad valorem property tax. Table 8 shows revenue accounts from the BARS chart of accounts that are converted into the Census' T01 property tax account. The programming should only code DOA accounts 311010 to 311040 as property tax. The remaining DOA accounts should be coded to more appropriate Census accounts.

Table 8 Table of BARS Chart of Revenue Accounts Classified as Taxes			
Description of Revenue	BARS Account #	Ad-Valorem Property Tax	Non Ad-Valorem
Taxes	311000	X	
Real Property Taxes	311010	X	
Personal Property Taxes	311020	X	
Mobiles Homes	311021	X	
Personal Property Taxes Other	311022	X	
Motor Vehicle Taxes (class 8)	311030	X	
Net and Gross Proceeds	311040	X	
Penalties and Interest on Delinquent Taxes	312000	X	
Tax Title and Property Sales	313000	X	
Light Vehicle Tax	314100		X
Cars and Trucks	314110		X
Fleet Taxes	314130		X
Local Option Tax on Vehicles	314140		X
Coal Gross Proceeds	314200		X
Resort Sales Tax	315100		X

It is important to note that this report is comparing census data for fiscal 1997. The law on the allocation of many of these taxes changed July 1, 2001.

Special and Miscellaneous Districts

Issue 7: Common Definition and Comprehensive Reporting for Miscellaneous and Special Districts

One of the primary reasons for differences in the property tax revenue reported by the Census and DOR for miscellaneous and special districts is different definitions of "property tax".

The Census Bureau describes property tax as "Taxes conditioned on ownership of property and measured by its value. This definition includes general property taxes related to property as a whole, real and personal, tangible or intangible, whether taxed at a single rate or at classified rates, and taxes on selected types of property, such as motor vehicles, or on certain or all intangibles" (1997 Census of Government, Volume 4 Government Finances). DOR describes property tax as a tax based on the assessed value of the property, the tax rate and the mill levy of the taxing jurisdiction where the property is located.

While DOR and the Census have similar definitions of the function of each of the individual types of taxing entities (local governments, miscellaneous districts, SID's, etc), they account for the revenue used to support these services differently.

For example, the department regards **“Special Improvement Districts”** as a taxing entity where the revenue generated for support of the services offered by the SID is most often in the form of a user fee. And, a taxing entity, other than a county, city or school district, whose property tax revenue is based on the ad-valorem value of property with the traditional mill levy, is considered a **“Miscellaneous District”**.

The department does not consider the fee revenue for a SID as an ad valorem property tax. The taxes generated by the mill levy of a miscellaneous district are considered an ad-valorem property tax for DOR purposes. However the revenue from Special Improvement and Miscellaneous Districts were grouped together in a specific section of past *Biennial Reports*. The Census considers SID fees to be a part of the total property taxes generated by the property and includes SID fees in their property tax totals.

In the BARS chart of accounts, and in the information forwarded to the Census, SID's and miscellaneous districts are in one category called Special Assessment Maintenance Districts. They are shown as collecting ad-valorem property tax. DOR views these same districts separately as SID's or miscellaneous districts. If their funding base has a property tax levy, these entities' property tax revenue collections based on the ad-valorem value are included as property taxes and called miscellaneous districts. Depending on the DOR classification, the tax revenue may or may not be considered a property tax revenue. This dissimilar treatment is an obstacle to reconciling property tax attributed to special and miscellaneous districts.

- Recommendation 7:**
- 1. Develop a common definition of miscellaneous and special districts that is used by every government entity in Montana;**
 - 2. Report all the detailed revenue/fee information on the miscellaneous and special districts in BARS;**
 - 3. Work with the Census to have them classify the ad-valorem property tax separately from other property fees or assessments.**

DOR and DOA need to develop a common classification system that addresses the differences in defining what constitutes an ad valorem property tax and what is an “other” source of revenue of the taxing jurisdictions. The BARS chart of accounts could also be modified so ad-valorem property tax and non-levy revenue are more clearly identified through the use of distinct account numbers. Then, when clearly defined information is available to the Census, the Census needs to determine how their report is going to show ad-valorem property tax versus other types of revenue.

Issue 8: Estimated Special District Financial Data by the Census

The Department of Administration reports to the Census financial data for some entities that DOR classifies as a miscellaneous district, but not all. An example of this is a mosquito or water /sewer district that is administered by the county and raises revenue based on a mill levy. However, if the county does not administer the mosquito or water

district, even though the county collects the district's mill levy revenue, it will not report the revenue to DOA. Because counties do not report to DOA financial data on special districts they do not administer, the Census does not receive financial data on most special districts from the state.

The Census collects financial data from some special districts in the form of an annual survey. The response rate to these surveys is limited. The Census estimates financial data for all special districts in Montana based on the surveys that are returned. DOA classifies as an agency fund what the Census classifies as a special district.

In fiscal 1997, DOR included revenue for SID's in the cities and towns section of the *Biennial Report*. Fire and miscellaneous districts were broken out into a separate section from county revenue. When comparing the property tax revenue collected for fiscal 1997 from the Census categories of county, city and special district with DOR's county, city and miscellaneous districts, the variation in classification of revenue caused part of the individual differences in property tax revenue from Table 1. An example of both factors would be a lighting district. If a lighting district is a fee-based taxing jurisdiction and did not return the Census' questionnaire, then the Census is likely to estimate that revenue for the taxing jurisdiction and consider the revenue ad-valorem property tax. Under DOR classification, the district would be classified as a SID because the revenue is fee based. In using the BARS chart of accounts as the basis of their revenue classification for this jurisdiction, the Census could possibly place the revenue into three different categories: Agency Fund, Special District or Enterprise Fund. These BARS funds are considered by DOR to be for fee-based collections. If the Census estimated the revenue in the example SID as being ad-valorem property tax, this would cause the Census to over-estimate the ad-valorem property tax collected for local governments.

Recommendation 8: DOA should report all special improvement and miscellaneous district revenue to the Census.

DOA should work with the Census to coordinate the reporting of property tax for all special improvement and miscellaneous taxing jurisdictions even if they are classified in the BARS chart of accounts as agency funds. The BARS chart of accounts should be expanded to provide a fund category that corresponds with the DOR definition of a miscellaneous district and a special improvement district.

Immaterial Differences

Issue 9: Timing of Personal Property Payments

A small amount of the difference between DOR's and the Census' property tax totals is caused by how property taxes are paid on personal property. Taxes on personal property attached to real property are due in November and June. Paying personal property taxes in this manner corresponds with the fiscal year. Taxes on personal

property not attached to real property are due in June. This would not create a problem if property values and mill levies remain constant. Since mill levies change from year to year, a difference occurs because, the tax liability of property that is not attached to real property is based on the prior years mill levy. So minor differences will occur between what DOR estimates and what is reported to the Census as actual.

Issue 10: Inclusion of Penalties and Interest

The Census includes revenue from penalties and interest on delinquent property taxes. The DOR property tax data does not include penalties and interest on delinquent property tax revenues. The amount of revenue generated by penalties and interest was small enough to be considered immaterial to the overall total for property tax. In the case of school funding, penalties and interest account for \$1.3 million of the difference in school funding, or one-half of a percent of the total revenue reported by the Census for schools.

Issue 11: Inclusion of Tax Title and Property Sales

The Census includes revenue from tax title and property sales in its property tax numbers. The DOR property tax data does not include revenue from tax title and property sales. It was found that the amount of revenue generated by tax title and property sales was small enough to be considered immaterial to the overall total for property tax. In the case of schools, tax title/property sales generated \$48,666 of the total \$272,810,763 reported by the Census.

Summary of Recommendations

Issue 1: Non-Levy Revenue is Included in the Census Numbers

Recommendation 1: DOR Should Work With The Census To Determine How To Report Non-Levy Revenue

Issue 2: Inclusion of Per Capita Tax Revenue

Recommendation 2: DOR should work with the Census to have the per capita livestock fees reported in a revenue category other than property tax.

Issue 3: Reporting of Community College Revenue

Recommendation 3A: Direct Reporting of Community College Revenue

Recommendation 3B: Continue the Current Practice

Issue 4: Non-Levy Revenue - Schools K-12

Recommendation 4: Do not Include Non-Levy Revenue With Ad-Valorem Property Tax.

Issue 5: Countywide Retirement and Transportation Levies

Recommendation 5: Report the Revenue Sources for Countywide School Levies to the Census as ad-valorem property tax.

Issue 6: Inclusion of Non Ad-Valorem Property Tax in the Census data

Recommendation 6: The Census should classify the non ad-valorem revenue as revenue other than property tax.

Issue 7: Common Definition and Comprehensive Reporting for Miscellaneous and Special Districts

Recommendation 7:

1. Develop a common definition of miscellaneous and special districts that is used by every government entity in Montana;
2. Report all the detailed revenue/fee information on the miscellaneous and special districts in BARS;
3. Work with the Census to have them classify the ad-valorem property tax separately from other property fees or assessments.

Issue 8: Estimated Special District Financial Data by the Census

Recommendation 8: DOA should report all special and miscellaneous district revenue to the Census.

Potential Long Term Solution

The BARS system currently in place has the potential to eliminate all differences discussed in this paper. The counties collect all the revenue in question; it is a simple matter of how they classify the revenue. While the counties do not track miscellaneous districts expenditure, they do track the revenue collected for miscellaneous districts. With some modification and addition to the BARS chart of accounts, the annual report from counties could be expanded to be the primary source of data for the Census.

The benefit of using the existing BARS system is that counties already use the system to track these revenues. There are three barriers to implementing this fix. The first task would be getting the county treasurers to report revenue for agency accounts in the accounting system. Second, the counties, DOA and DOR need to agree on a common classification system for taxing jurisdictions and for tax revenues in the same manner. The final barrier is modifying the county annual financial report so counties can report the revenue data for special/miscellaneous districts to the DOA.

If you have any questions, you can contact Edmund Caplis, Tax Policy Analyst, at 444-3531 or email him at edcaplis@state.mt.us.